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TO RUEHC/SECSTATE WASHDC PRIORITY 0624
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY
RUCNCIS/CIS COLLECTIVE PRIORITY
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUEHAK/AMEMBASSY ANKARA PRIORITY 3647
RUEHBJ/AMEMBASSY BEIJING PRIORITY 1465
RUEHKO/AMEMBASSY TOKYO PRIORITY 1332
RUEHIT/AMCONSUL ISTANBUL PRIORITY 1901
RUEKJCS/JOINT STAFF WASHDC PRIORITY
RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 ASHGABAT 000485

SIPDIS

SENSITIVE
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STATE FOR SCA/CEN, EEB
PLEASE PASS TO USTDA DAN STEIN
COMMERCE FOR HUEPER
TREASURY FOR BAKER/LANIER

E.O. 12958: N/A

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SUBJECT: TURKMENISTAN'S CURRENCY RE-DENOMINATION; EXCHANGE RATE
UNEASE

11. (U) Sensitive but unclassified. Not for public Internet.

12. (U) SUMMARY: On April 14 President Berdimuhamedov signed a decree that spells out more details about the forthcoming re-denomination of Turkmenistan's currency -- the manat - first announced on September 11, 2007. The re-denominated bills and the old bills will be accepted concurrently as legal tender from January 1, 2009 through December 31, 2009. The transition to the new currency progresses in parallel with activities on unifying the exchange rate. However, the lack of information about the process creates nervousness among the population, and the president's announcement has set off a new run to exchange dollars for manats before a rumored change in the exchange rate kicks in. END SUMMARY.

THE MECHANICS

13. (U) An April 14 presidential decree orders that the face value of Turkmenistan's currency be re-denominated by a factor of 1,000. After the re-denomination was first announced on September 11, 2007, samples of the new currency were shown in the newspaper. The highest denomination bill will be 500 new manats (about \$25 at the current commercial exchange rate), versus the existing 10,000 manat bill (just under \$0.50). Turkmenistan's government is making this change in part because it believes that the re-denomination will increase money circulation and simplify cash and electronic transactions, accounting and statistical records.

14. (U) Throughout 2009 all price tags will have to list both old and re-denominated prices. The Ministry of Economy and Development has been instructed to adjust state-regulated prices based on the re-denominated currency values. The State Tax Service has been assigned to ensure that vendors use proper price tagging. The State Tax Service jointly with the Ministry of Trade and Foreign Economic Affairs will also inspect whether vendor cash registers print new

re-denominated prices.

¶15. (U) The decree instructs the Central Bank of Turkmenistan to adjust the national payment system to the new currency values. All Turkmenistani legal entities and private businessmen are to make accounting adjustments in their books and revalue their assets and prices by December 1, 2008.

¶16. (U) President Berdimuhamedov has given one month to the Ministry of Justice, Central Bank, Ministry of Finance and Ministry of Economy and Development to draft appropriate amendments to Turkmenistan's by-laws pertaining to the denomination of the national currency. He also decreed that the Ministry of Culture and Broadcasting conduct in the national mass media a public information campaign on re-denomination of domestic currency and related government actions and orders.
THE EXCHANGE RATE LINK

¶17. (U) The 2009 re-denomination is the first since the manat's introduction as the national currency on November 1, 1993. The original exchange rate was set at \$1 per 2 manats. However, hyperinflation caused by dependence on imports and low foreign exchange reserves drove the exchange rate up until 1998, when the government set the official rate at 5,200 manat per dollar. This rate remained unchanged until the Government officially announced on January 1, 2008 its plan to unify the official and commercial rates in 2009. The official rate is currently set at 6,250 manats per dollar and the commercial rate at 19,800 manats.

¶18. (U) During the April 14 broadcast of the Cabinet of Ministers meeting on economic reforms, President Berdimuhamedov stated that Turkmenistan will start unifying the two existing exchange rates (the official and the "commercial") beginning May 1. (This comment was not reprinted in the newspapers that came out the next day.)

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The President was not clear how the rate would change and when the new rate would be enforced. The broadcast resulted in an immediate higher demand for manats at exchange points and banks in anticipation of a possible manat appreciation on May 1. Embassy staff have heard numerous unofficial reports that exchange is limited to \$100 per person per exchange transaction. Banking officials are citing lack of adequate volume of manats as the reason for the limit. It is not clear whether consumers are gradually switching to the manat as the currency of savings in anticipation of a possible appreciation of the commercial rate.

¶19. (U) Meanwhile, long lines are forming outside banks and official exchange points as panicky citizens are rushing to exchange dollars before a possible new adjustment. As of 1400 hours on April 17, some exchange points reportedly have been closed, and manat are being exchanged at non-official exchange points for 16,000 manat per dollar.

¶19. (SBU) The government is doing a poor job in explaining to citizens its currency and exchange rate plans. This uncertainty paired with monopolistic consumer markets helps to fuel growing inflation and keeps the population nervous.

¶10. (SBU) COMMENT: Turkmenistan lacks substantial local production of goods and is still dependent on imports. The government has not made any announcement about large scale-privatization or private-sector development plans and still counts on hydrocarbon revenue to support the exchange rate. The so far poor job the government is doing in explaining to its citizens its currency and exchange rate plans is creating an uncertainty that, when paired with monopolistic consumer markets, helps to fuel growing inflation and keeps the population nervous. END COMMENT.

HOAGLAND